

**ARIZONA**  
**MONTHLY FISCAL HIGHLIGHTS**  
**January 2006**

**Summary**

General Fund revenue collections were \$866.6 million in December, which was \$66.9 million above the forecast for the month and 15.9% more than December 2004. Year-to-date collections total \$331.5 million over the budgeted forecast. The forecast comparison is based on projected FY 2006 revenues from the enacted budget. We will begin next month to report the monthly results relative to the JLBC Staff's revised FY 2006 forecast.

The enacted budget requires any FY 2006 revenues above forecast to be deposited into the Budget Stabilization Fund. The first deposit will not be made until JLBC Staff and the Governor's Office of Strategic Planning and Budgeting (OSPB) report in February 2006 on revenues for the first 6 months of the fiscal year.

Following 2 months of approximately 10% growth, December revenue collections returned to the 15-20% growth range seen in the first quarter of FY 2006. Of the 2 largest revenue categories, sales tax collections were 18.9% above last year, and individual income tax increased 23.4% (19.1% after adjusting for this year's higher withholding rates).

The January Monthly Fiscal Highlights includes a summary of recent statutory reports submitted to JLBC.

**Table of Contents**

<u>Page #</u>	<u>Page #</u>
November Revenues .....	3
Recent Economic Indicators.....	3
<u>Summary of Recent Agency Reports</u>	
- AHCCCS – Data Processing Agreement .....	5
- Attorney General – Incarceration Costs Offset by Monetary Judgments .....	5
- Attorney General – Crane Lawsuit Expenditures.....	5
- Community Colleges – Annual Report .....	5
- Community Colleges – Workforce Development .....	6
- Corp. Comm. – Corporation Division Filings.....	7
- ACJC – Criminal Case Processing Funds .....	7
<u>Summary of Recent Agency Reports (cont'd)</u>	
- ACJC – Criminal Justice Enhancement Fund.....	7
- ADE – Budget Status Report.....	8
- ADEQ – Alternative Testing and Compliance Study .....	9
- AGFD/ADOT – Transfer Watercraft Registration .....	9
- Supreme Court – Collections and Case Processing .....	9
- DOR – Ladewig Expenditures.....	10
- DOR – Revenue Generating Program .....	10
- DOR – BRITS .....	11
- Sec. of State – Election Systems Improvement Fund.....	11
- Corporate Sales Factor – Conditional Enactment.....	12

# State of Arizona

## General Fund Revenue: Change from Previous Year and May Forecast

### December 2005

	Current Month					FY 2006 YTD (Six Months)				
	Actual December 2005	Change From				Actual December 2005	Change from			
		December 2004		Revised Forecast			December 2004		Revised Forecast	
		Amount	Percent	Amount	Percent		Amount	Percent	Amount	Percent
<b><u>Taxes</u></b>										
Sales and Use	\$341,852,219	\$54,233,498	18.9 %	\$36,337,419	11.9 %	\$2,046,059,189	\$298,478,391	17.1 %	\$178,894,389	9.6 %
Income - Individual	366,228,870	69,460,151	23.4	26,859,070	7.9	1,667,955,839	302,448,170	22.1	106,957,739	6.9
- Corporate	135,236,728	(1,996,062)	(1.5)	(3,867,772)	(2.8)	398,768,741	56,028,028	16.3	29,266,741	7.9
Property	6,697,893	4,293,571	178.6	3,397,893	103.0	13,785,028	(250,056)	(1.8)	985,028	7.7
Luxury	4,942,412	50,917	1.0	(407,588)	(7.6)	31,805,924	1,222,850	4.0	(294,076)	(0.9)
Insurance Premium	27,668,388	5,238,211	23.4	3,503,988	14.5	137,235,059	13,873,871	11.2	7,372,859	5.7
Estate	1,045,327	(1,416,912)	(57.5)	(454,673)	(30.3)	10,376,584	(10,369,018)	(50.0)	376,584	3.8
Other Taxes	44,367	(11,754)	(20.9)	(187,633)	(80.9)	319,703	(1,286,211)	(80.1)	(1,072,297)	(77.0)
<b>Sub-Total Taxes</b>	<b>\$883,716,204</b>	<b>\$129,851,620</b>	<b>17.2 %</b>	<b>\$65,180,704</b>	<b>8.0 %</b>	<b>\$4,306,306,067</b>	<b>\$660,146,025</b>	<b>18.1 %</b>	<b>\$322,486,967</b>	<b>8.1 %</b>
<b><u>Other Revenue</u></b>										
Lottery	2,520,200	(270,800)	(9.7)	(979,800)	(28.0)	21,242,800	5,910,600	38.6	2,542,800	13.6
License, Fees and Permits	2,691,728	694,681	34.8	23,028	0.9	15,514,547	2,597,786	20.1	(1,381,253)	(8.2)
Interest	5,182,115	3,054,609	143.6	3,570,815	221.6	21,718,229	12,584,530	137.8	12,565,329	137.3
Sales and Services	3,877,843	332,760	9.4	(360,557)	(8.5)	24,281,302	6,295,409	35.0	2,489,802	11.4
Other Miscellaneous	3,374,452	1,234,281	57.7	1,000,752	42.2	10,806,019	1,808,269	20.1	1,435,919	15.3
Disproportionate Share	0	0	--	0	--	0	0	--	0	--
Transfers and Reimbursements	671,592	362,186	117.1	(1,488,408)	(68.9)	4,346,107	(12,223,996)	(73.8)	(8,613,893)	(66.5)
<b>Sub-Total Other Revenue</b>	<b>18,317,930</b>	<b>5,407,717</b>	<b>41.9 %</b>	<b>1,765,830</b>	<b>10.7 %</b>	<b>97,909,004</b>	<b>16,972,598</b>	<b>21.0 %</b>	<b>9,038,704</b>	<b>10.2 %</b>
<b>TOTAL BASE REVENUE</b>	<b>\$902,034,134</b>	<b>\$135,259,337</b>	<b>17.6 %</b>	<b>\$66,946,534</b>	<b>8.0 %</b>	<b>\$4,404,215,071</b>	<b>\$677,118,623</b>	<b>18.2 %</b>	<b>\$331,525,671</b>	<b>8.1 %</b>
<b><u>One-Time Revenue</u></b>										
Urban Revenue Sharing	(35,435,744)	(4,346,362)	14.0	0	0.0	(212,614,464)	(26,078,175)	14.0	0	0.0
VLT Transfer	0	(11,960,180)	(100.0)	0	--	0	(54,144,143)	(100.0)	0	--
Judicial Enhancement	0	(50,000)	(100.0)	0	--	0	(2,196,600)	(100.0)	0	--
<b>Sub-Total Transfers In</b>	<b>(35,435,744)</b>	<b>(16,356,542)</b>	<b>85.7 %</b>	<b>0</b>	<b>0.0 %</b>	<b>(212,614,464)</b>	<b>(82,418,918)</b>	<b>63.3 %</b>	<b>0</b>	<b>0.0 %</b>
<b>TOTAL REVENUE</b>	<b>\$866,598,390</b>	<b>\$118,902,795</b>	<b>15.9 %</b>	<b>\$66,946,534</b>	<b>8.4 %</b>	<b>\$4,191,600,607</b>	<b>\$594,699,705</b>	<b>16.5 %</b>	<b>\$331,525,671</b>	<b>8.6 %</b>

**DECEMBER REVENUES**

**Sales Tax** revenue increased by 18.9% on a year-over-year basis in December and was \$36.3 million above the forecast for the month. Year-to-date, collections are \$178.9 million above the forecast. Based on collections through December:

- **Retail** receipts have increased by 15.8%.
- **Contracting** continues to generate strong returns, with year-to-date growth of 25.8%.
- **Utilities** collections are up 11.2%.
- **Use tax** receipts (all of which are retained by the state) have grown by 20.6%.
- **Restaurant and bar** collections are up 14.2%.

**Individual Income Tax** collections were \$366.2 million in December, a 23.4% increase above last December and \$26.9 million above the forecast for the month. Withholding collections grew by 18.0% (12.5% after adjusting for the higher withholding rates implemented in January 2005). Estimated payments increased 37.7% over December 2004. Year-to-date, collections are \$107.0 million above the forecast.

**Corporate Income Tax** collections were \$135.2 million in December, a (1.5)% decrease from a year ago. For the fiscal year to date through December, corporate income tax revenues have increased 7.9% from last year, and are \$29.3 million above the forecast.

The General Fund portion of December **Luxury Tax** collections was 1.0% above December 2004. Year-to-date, revenues are \$1.2 million above last year.

Among the remaining categories, **Insurance Premium Tax** collections increased 23.4% from a year ago and were \$3.5 million above the forecast.

**Table 2**

**General Fund Revenues  
Compared to Adopted Forecast and FY 2005 Collections**

(\$ in Millions)

	FY 2006 Collections	Difference From Forecast <sup>1/</sup>	Difference From FY 2005
December	\$ 866.6	\$ 66.9	\$ 118.9
Year-to- Date	\$ 4,191.6	\$ 331.5	\$ 594.7

<sup>1/</sup> Enacted FY 2006 budget (May)

**RECENT ECONOMIC INDICATORS**

The **U.S. Index of Leading Economic Indicators** edged up 0.1% in December, which followed revised gains of 0.9% and 1.0% in the previous 2 months. The index continued to signal the economy's rebound from last summer, when natural disasters and soaring fuel costs threatened its growth prospects. Consumer expectations made the largest contribution to the increase in the leading index, while manufacturers' new orders also improved.

Falling fuel costs pushed the **U.S. Consumer Price Index (CPI)** (0.1)% lower in December. For the 12 months ending December 2005, the CPI climbed 3.4%, the largest annual increase since 2000. Excluding food and energy prices, the core CPI increased 2.2% during 2005.

The high-technology sector continued to show strength. The Semiconductor Industry Association (SIA) reported that **U.S. semiconductor billings** (3-month moving average) advanced 3.7% in November and stood 8.0% higher than a year ago. Worldwide semiconductor sales continued at a record clip, bolstered by strong orders for cell phones, digital cameras and MP3 players.

Arizona's economy capped a stellar year in 2005 with a strong employment report for December. While the state's **unemployment rate** dropped to 4.6% in December, **non-farm employment** increased 4.5% on a year-over-year basis, the fastest reported since 1999. The state's economy produced 110,800 jobs in the last 12 months, with the private sector accounting for almost 107,000. The construction sector was responsible for almost 25% of the increase and financial services, health care, and food services also generated sizable gains.

The **Arizona Business Conditions Index**, derived from a monthly survey of supply chain managers, jumped 5.7% in December to 69.7. The production component of the index reached an all-time high and 62% of the respondents anticipated rising capital expenditures in 2006.

The Behavior Research Center's (BRC) **Arizona Consumer Confidence Index** soared 14.6% in the first quarter of 2006 to its highest level since 2000. A strong, positive view of the labor market was the largest confidence driver, and the BRC also reported a modest but steady increase in consumers' assessment of future business conditions.

Confidence was also rising in the business community. The University of Arizona's **Business Leaders Confidence Index** (BLCI) rose 9.5% in 2006's first quarter. The gains occurred across the board. Future expectations for the state and national economies were improving and the outlook for sales, profits, hiring, and capital expenditures all showed improvement.

The Real Estate Center at Arizona State University reported that the Greater Phoenix **single-family median resale home**

**price** fell to \$260,000 in December from the \$263,000 record in the previous month. During 2005, the single-family median price increased 34.0%, while the median sale price for condominiums and townhouses rose 31.2%. The volume of single family home sales declined for the fourth consecutive month to 6,480, which was down (9.9)% from November and (19.4)% from last December.

The **Department of Corrections' inmate population** increased by an average of 167 inmates per month from October through December. The total population increased by 874 inmates from a year ago.

**The number of TANF recipients** decreased (0.8)% to 99,036 in October and was (11.5)% below the level from October 2004. The **AHCCCS caseload** dipped (0.7)% lower in December from the prior month and stood 0.4% above the level from a year ago.

**Table 3****RECENT ECONOMIC INDICATORS**

<u>Indicator</u>	<u>Time Period</u>	<u>Current Value</u>	<u>Change From Prior Period</u>	<u>Change From Prior Year</u>
<b>Arizona</b>				
- Unemployment Rate	December	4.6%	(0.2)%	0.1%
- Jobs	December	2.56 million	0.7%	4.5%
- Contracting Tax Receipts (3-month average)	Oct-Dec	\$70.3 million	1.2%	26.2%
- Retail Sales Tax Receipts (3-month average)	Oct-Dec	\$153.2 million	(1.4)%	13.8%
- Residential Building Permits - (3-month moving average)				
Single-unit	Sep-Nov	6,054	(9.3)%	1.0%
Multi-unit	Sep-Nov	1,022	(24.1)%	66.4%
- Greater Phoenix Existing Home Sales				
Single-Family	December	6,480	(9.9)%	(19.4)%
Townhouse/Condominium	December	1,395	(12.8)%	(7.9)%
- Greater Phoenix Median Home Sales Price				
Single-Family	December	\$260,000	(1.1)%	34.0%
Townhouse/Condominium	December	\$164,000	(0.6)%	31.2%
- Arizona Tourism Barometer	November	105.2	0.3%	7.8%
- Phoenix Sky Harbor Air Passengers	November	3.40 million	(1.3)%	5.1%
- Arizona Average Natural Gas Price (\$ per thousand cubic feet)	October	\$8.85	(0.1)%	61.2%
- Leading Indicators Index	October	120.9	1.0%	0.9%
- Business Conditions Index (>50 signifies expansion)	December	69.7	5.7%	8.6%
- Consumer Confidence Index	1 <sup>st</sup> Quarter 2006	114.6	14.6%	9.9%
- Business Leaders Confidence Index	1 <sup>st</sup> Quarter 2006	59.9	9.5%	(3.9)%
- Arizona Personal Income	3 <sup>rd</sup> Quarter 2005	\$179.6 billion	1.7%	8.6%
- Arizona Population	July 1, 2005	5.94 million	3.5%	3.5%
- AHCCCS Recipients	December	814,812	(0.7)%	0.4%
- TANF Recipients	October	99,036	(0.8)%	(11.5)%
- DOC Inmate Growth (3-month average)	Oct-Dec	33,345	167 inmates	874 inmates
<b>United States</b>				
- Gross Domestic Product (seasonally adjusted annual growth rate)	3 <sup>rd</sup> Quarter 2005	\$11.2 trillion	4.3%	3.7%
- Consumer Confidence Index	December	103.6	5.4%	8.8%
- Leading Indicators Index	December	138.5	0.1%	1.2%
- U.S. Semiconductor Billings (3-month moving average)	Sep-Nov	\$3.73 billion	3.7%	8.0%
- Consumer Price Index (3-month moving average)	Oct-Dec	197.9	(0.3)%	3.7%

## SUMMARY OF RECENT AGENCY REPORTS

**AHCCCS – Report on Interstate Agreement with Hawaii** – Pursuant to A.R.S. § 36-2925H and a General Appropriation Act footnote, AHCCCS is submitting its annual report on the status of an Interstate Agreement with the State of Hawaii.

This report summarizes the continued activities associated with the agreement between AHCCCS and Hawaii for data processing with the AHCCCS Prepaid Medicaid Management Information System (PMMIS). Cost savings to AHCCCS resulting from this agreement are deposited into a special fund. This fund had an ending FY 2005 balance of \$1,459,100, including \$139,700 deposited in FY 2005. As per A.R.S. § 36-2926, these funds are limited to technology projects and IT staff recruitment.

**Attorney General – Report on Incarceration Costs Offset by Monetary Judgments** – Pursuant to A.R.S. § 31-238, the Office of the Attorney General is required to report semi-annually on the use of monetary judgments awarded to inmates to offset the costs of incarceration. According to the statute, if an inmate obtains a monetary judgment against the state, and the state offsets the cost of incarceration from the total amount of the judgment, 70% of the monies set off are transferred to the General Fund and 30% are transferred to the Attorney General's office to cover the cost of litigation. From July 1, 2005 to December 31, 2005, the state did not exercise its right to offset the costs of incarcerating inmates under this statute, since no monetary judgments were awarded during this time period. The agency does, however, indicate that it believes the existing statute results in reduced negotiated settlement amounts, which also discourages the filing of frivolous lawsuits.

**Attorney General – Quarterly Report on Expenditures from Appropriation for Crane Lawsuit** – In September 2001, 7 school districts filed the Crane lawsuit, which claimed that the current Arizona school finance system is unconstitutional because it does not provide at-risk students with programs and funding needed in order to meet state academic standards. In FY 2004, the Legislature appropriated \$500,000 to the Attorney General for legal fees incurred by outside counsel in defending the state.

Pursuant to Laws 2003, 2nd Special Session, Chapter 4, the Office of the Attorney General is required to report on a quarterly basis to the JLBC the amount expended from the appropriation for the Crane lawsuit. As of December 31, 2005, a total of \$466,600 has been spent. Of this amount, \$457,600 was spent on outside legal services, \$4,500 was spent on expert witnesses, and \$4,500 was spent on external printing. The remaining unexpended amount is \$33,400. The agency spent a total of \$430,400 in FY 2004 and \$36,200 in FY 2005. No expenditures were reported in the first 2 quarters of FY 2006.

**Arizona Community Colleges – Annual Report** – Pursuant to A.R.S. § 15-1427, the Arizona Community Colleges are required to report on their progress during the previous year.

The FY 2005 report includes the following summary information on the state system:

- 197,455 students (headcount) were enrolled for credit, resulting in a Full-Time Student Equivalent count of 119,851
- 90% of enrolled students resided within the district, while 9% did not reside within the district
- Total number of instructors employed was 10,364, of which 2,230 (22%) were full-time and 8,134 (78%) were part-time
- Total operating revenues were \$1.1 billion (Excludes bond proceeds and fund balance.)
- Total expenditures were \$832.7 million (Report did not include grant expenditures or spending from auxiliary sources.)

In addition, each district has provided a description of their major accomplishments in FY 2005.

### Cochise

- Nursing Program admitted its largest entering class – 71 freshman
- Increased retention rate of first-year nursing students
- Initiated Solar Farm project with Douglas campus, will supply 25% of campus' energy requirements

### Coconino

- Offering new degree in Colorado Plateau Studies and Anthropology, and new certificates for Basic Detention Academy, Phlebotomy for Law Enforcement, Network Systems Administration and Power Plant Operations Maintenance
- Graduated 20 nursing students, enrolled 30 first-year, and 30 second-year students

### Graham

- Provided 2 Motor Vehicle Training Academies in partnership with the MVD
- Completed High-Tech Center, opened in fall 2005
- Received \$50,000 grant to renovate and upgrade Nursing Lab
- Graduated 14 Lab Assistants from Nursing Department

### Maricopa

#### *Chandler-Gilbert*

- Began offering Retail Management Certificate in cooperation with the Western Association of Food Chains
- Created career program in Nursing, which enrolled 40 students in the fall

#### *Estrella Mountain*

- Launched apprenticeship program with Lockheed Martin for high school students going into information technology careers

#### *Gateway*

- Formed Power Plant Technologist Apprenticeship Program with Palo Verde Nuclear Generating Station
- Skill Center launched Automated Manufacturing program to train students in high-tech manufacturing fields

Glendale

- Received Computer Science, Engineering and Mathematics NSF Grant totaling \$386,000
- Developed new degrees for Music Business and Biotechnology, developed Retail Sales certificate

Mesa

- Partnership with Koning Willem College to offer Organization Management in International Business degree
- Planning new Dental Hygiene and Dental Assisting Program, and received initial accreditation

Paradise Valley

- Completed construction of Performing Arts Center
- Partnership with Harquahala Fire District to offer Fire Academy

Phoenix

- Nursing program received \$21,917 grant

Rio Salado

- Added Nursing Assistant certificate and RN program
- Expanded online course offerings

Scottsdale

- Offering new degrees: Arts, and Fine Arts
- Developed second Nursing program

South Mountain

- Received \$1.1 M five-year federal grant for low-income, first generation and disabled students

Mohave

- Dental Hygiene Program began offering classes
- Expanded online access for courses

Navajo

- Awarded \$2.3 million federal Title III Grant in collaboration with Coconino for distance learning partnership
- Implemented Rural Outreach for Paramedical Education program
- With NAVIT, created Automotive Technician program

Pima

- Developed faster network connects on campus
- Pharmacy Technology Program received accreditation

Pinal

- Awarded \$600,000 federal grant to establish career and business development center

Yavapai

- Received the following grants: \$4 M federal, \$605,000 state, \$1.3 M private

Yuma/La Paz

- Implemented 2+2 plan with NAU for distance based education in secondary education
- Began Radiology Technology program with Yuma Regional Medical Center
- Built 25 station computer lab for Nursing Students with grant
- Expanded online course access

**Arizona Community Colleges – Report on Workforce Development Expenditures** – The Arizona Community Colleges are reporting on their previous year's workforce development plan activities and expenditures.

<b>Table 4</b>				
<b>FY 2005 Community College Workforce Development Activity</b>				
District	Revenues	Expenditures <sup>1/</sup>	Key Expenditures (Over \$100 K)	Private Sector Contributions
Cochise	\$ 757,900	\$ 263,900	No expenditures over \$100 K	\$ 0
Coconino	1,369,900	369,900	Nursing faculty and administration – \$157 K	150,700
Graham	437,800	576,300	Interactive television technology – \$454 K	0
Maricopa	6,593,400	4,553,800	Faculty – \$3.0 M Rapid response to new economy – \$1.4 M Development of small business – \$200 K	3,249,100
Mohave	418,300	459,700	Upgrade computer technology – \$212 K Expand vocational-technical education – \$236 K	715,900
Navajo	456,600	456,600	Cosmetology faculty – \$113 K Nursing assistant faculty – \$112 K	53,000
Pima	2,107,300	1,489,800	Aviation Structural Repair FTEs – \$108 K Health Occupations Space Renovation – \$124 K	1,680,800
Pinal	540,600	572,200	Dean of Workforce and Economic Development; Three Workforce Development offices – \$316 K	153,900
Yavapai	505,300	505,300	Computer Networking Technology – \$120 K Verde Campus Science Lab – 167 K	215,100
Yuma/La Paz	584,800	592,200	Expand programs: Advanced Water Treatment, Nursing, EMS, Fire Science, Law Enforcement – \$466 K	183,900
<b>TOTAL</b>	<b>\$13,771,900</b>	<b>\$9,839,700</b>		<b>\$6,402,400</b>
<sup>1/</sup> Expenditures exceed revenues in some districts due to the availability of a carry forward fund balance.				

A.R.S. § 15-1472 requires each community college district to establish a workforce development account. Monies in the account are derived from Proposition 301 sales tax revenues and shall be used for workforce development and job training, including expenditures for: 1) partnerships with businesses and educational institutions; 2) additional faculty; 3) technology and equipment; 4) student services for new and expanded job opportunities; and 5) property and new construction, remodeling, or repair of facilities.

*Table 4* on the previous page presents total FY 2005 workforce development revenues and expenditures and a brief description of key expenditures by district. Total revenues in FY 2005 were \$13,771,900 and total expenditures in the same year were \$9,839,700. The table does not include \$1 million in revenues received by the Coconino County Community College District to provide matching capital funds for the Page campus pursuant to A.R.S. § 15-1463. In addition, the table does not include revenues or expenditures for Diné College or Tohono O'odham Community College. Revenue figures are as reported on the State Treasurer's Web site.

*Table 4* also provides information on contributions the community college districts received from the private sector to promote workforce development. Total private sector contributions in FY 2005 were estimated to be \$6,402,400.

**Corporation Commission – Report on Corporations Division Filings** – Pursuant to a footnote in the General Appropriation Act, the Corporation Commission has submitted a quarterly report on the status of reducing processing delays in its Corporations Division. The Legislature added \$629,700 in Other Funds in FY 2006 to hire staff to reduce the filings backlog and reduce processing times. This appropriation annualizes supplemental funding added in FY 2005, when the Legislature appropriated \$456,200 in Other Funds to hire part-time and temporary staff to reduce backlogs. Significant backlogs and processing delays had developed in the Corporations Division because of increases in the number of corporation filings, which in FY 2005 grew 20% over FY 2004 levels.

Between March 25, 2005 and December 31, 2005, a total of 89,195 filings were received by the Corporations Division, and 96,091 were processed. In the last quarter, a total of 25,077 filings were received by the Corporations Division, and 22,513 were processed.

For expedited filings, the amount of time required to process the filings fell from an average of 59.2 days on March 25 to 11.2 days on December 31 (an 81.1% decrease). During the past quarter, the amount of time required to process filings increased from an average of 8.3 days to 11.2 days (a 34.9% increase).

For regular filings, the amount of time required to process the filings fell from an average of 150.5 days on March 25 to 55.5 days on December 31 (a 63.1% decrease). During the past quarter, the amount of time required to process filings

decreased from an average of 63.7 days to 55.5 days (a 12.9% decrease).

**Arizona Criminal Justice Commission – Report on State Aid to County Attorneys Fund and the State Aid to Indigent Defense Fund** – Pursuant to A.R.S. § 41-2409E, the Arizona Criminal Justice Commission (ACJC) is required to report on the expenditures of monies in the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund by January 8, 2005. As a result of increased caseloads, courts, prosecutors, and defense attorneys have experienced an increasing number of days between the time of arrest and the time of disposition of offenders. These funds were created to help “Fill the Gap” by improving criminal case processing times. Monies in the funds are distributed to counties based on a statutory formula that uses population and criminal case filings.

In FY 2005, the State Aid to County Attorneys Fund allocated \$864,300, of which \$157,800 was from the General Fund and the remaining \$706,500 was from fines and penalties collected by the Supreme Court and Court of Appeals. The State Aid for Indigent Defense Fund allocated \$820,900, of which \$150,100 was from the General Fund and \$670,800 was from fines and penalties collected by the Supreme Court and Court of Appeals. The Supreme Court separately reports the State Aid to Courts portion of “Fill the Gap” funding.

According to ACJC, counties used the State Aid to County Attorneys Fund and State Aid to Indigent Defense Fund monies in 3 main areas: additional staffing to process more cases, equipment purchases to improve case management, and contracts for outside services to improve criminal case processing.

The legislation establishing the funds and the reporting requirement included a legislative intent section that set timelines for criminal case processing. The ACJC report states that many agencies have been able to decrease case processing times as a result of the Fill the Gap funding; however, due to increasing caseloads and recent Supreme Court rulings, the report indicates that these funds are insufficient to meet case processing time guidelines.

According to the report, from FY 2001 to FY 2005, case processing times improved in Pima and Maricopa Counties and declined by between 8% and 18.5%. Pima and Maricopa Counties receive 70% of all case filings in the state. Lack of uniformity in data collection and reporting has created difficulty in establishing baseline case processing times for most counties. With further standardization of data collection, ACJC reports that improvements in case processing times may be more apparent in the upcoming year.

**Arizona Criminal Justice Commission – Report on Criminal Justice Enhancement Fund** – Pursuant to A.R.S. § 41-2401C, the Arizona Criminal Justice Commission (ACJC) is required to report by December 1, 2005 on the receipt and expenditures of Criminal Justice Enhancement Fund (CJEF) monies distributed to law enforcement agencies. CJEF consists of a 47% assessment on certain fines, penalties, and forfeitures

<b>Table 5</b>			
<b>Criminal Justice Enhancement Fund Distribution</b>			
	<b><u>FY 2005</u></b>	<b><u>% of CJEF</u></b>	<b><u>Appropriated</u></b>
<b>Funds Transferred <sup>1/2/</sup></b>			
Attorney General			
AZ Prosecuting Attorneys Advisory Council (4)	1,171,600	3.03	no
County Attorneys (7)	3,614,000	9.35	no
Victim's Rights Implementation (13)	2,968,500	7.68	yes <sup>3/</sup>
AZ Criminal Justice Commission			
Operation Costs (10)	606,900	1.57	yes
Victim Compensation (14)	1,778,000	4.6	yes <sup>3/</sup>
Department of Corrections			
County Sheriffs (9)	4,522,400	11.7	no
Department of Public Safety			
Crime Lab Assessment Fund (12)	4,367,800	2.3	yes <sup>3/</sup>
DNA Identification System (6)	494,800	1.3	yes <sup>3/</sup>
Fingerprinting Identification System (1)	2,497,000	6.46	yes
Peace Officer's Training Fund (3)	6,431,900	16.64	no
State/Local Grants (6)	2,813,900	7.26	<sup>4/</sup>
Department of Juvenile Corrections (2)	622,300	1.61	yes
Supreme Court			
Case Processing (8)	2,326,900	6.02	yes
Juvenile Crime (5)	3,617,800	9.35	yes
Community Punishment Program (15)	823,300	2.13	yes
General Fund (11) <sup>5/</sup>	<u>0</u>	9	no
<b>Total Funds Transferred</b>	<b>38,657,100</b>		

1/ The numbers following the recipient agencies represent the paragraph numbers from A.R.S. § 41-2401 Subsection D.

2/ The numbers displayed in the chart represent monies distributed to agencies and may not correspond directly with agencies' actual expenditures or appropriation amounts.

3/ These monies represent a continuing appropriation from the CJEF, but are appropriated prior to expenditure by the recipient agency.

4/ Monies retained by the Department of Public Safety (DPS) for operating expenditures are appropriated. Monies passed through to state and local agencies are non-appropriated.

5/ As session law, revenues previously deposited to the General Fund were redirected to the DPS Crime Lab Assessment Fund for FY 2005 and FY 2006.

imposed and collected by the courts. CJEF monies are statutorily distributed to various law enforcement agencies for criminal justice related activities. Agencies utilize CJEF funds to support law enforcement, prosecutorial, judicial, and correctional projects. A portion of CJEF monies are appropriated with the remainder distributed to agencies as non-appropriated. In FY 2005, CJEF revenues totaled \$38,657,100 and the total funds available (including the beginning balance and adjustments) for the fiscal year was \$52,806,500. Total CJEF expenditures were \$36,763,600 in FY 2005, leaving an ending balance of \$16,042,800. In FY 2005, CJEF revenues grew by 9.2%, expenditures increased by 5.9%, and the overall ending balance increased by 19.8%.

Table 5 above summarizes FY 2005 CJEF revenue distributions to agencies.

**Department of Education – Budget Status Report** – Pursuant to A.R.S. § 35-131(D) and a footnote in the FY 2006 General Appropriation Act, the Arizona Department of Education (ADE) recently provided an update regarding its budget status for formula-funded and other major programs for FY 2006. In that report, ADE estimates that it will experience a \$(23.1)

million shortfall for FY 2006. That total includes a \$(24.4) million shortfall for Basic State Aid, a \$3.1 million surplus for the "Homeowner's Rebate" program, a \$(0.4) million shortfall for other formula programs and a \$(1.4) million shortfall for Achievement Testing.

ADE's current \$(23.1) million estimate is substantially lower than its \$(61.4) million projection from November 2005, which was its most recent prior estimate. Most of the change is due to lower estimated FY 2006 costs for charter schools (down \$20 million from November) based on now-available 40<sup>th</sup> Day Average Daily Membership (ADM) counts for charter schools. The decrease also includes a \$14.3 million reduction in the estimated cost of "prior year" ADM growth for school districts for FY 2006 and a \$3.3 million reduction for corrections to prior year state aid that was not included in the November 2005 estimates.

The shortfall estimate is subject to considerable change once preliminary FY 2006 100<sup>th</sup> Day ADM counts become available for both school districts and charter schools. This is not expected to occur until at least February 2006.



**Arizona Department of Environmental Quality – Report on Arizona Alternative Testing and Compliance Study** – Pursuant to Laws 2000, Chapter 404, the Department of Environmental Quality has submitted the final report for the Arizona Alternative Testing and Compliance Study (AZTACS). The purpose of this study was to research and evaluate the feasibility and effectiveness of alternative technologies to identifying high pollutant vehicles and requiring their repair prior to entrance into the Phoenix or Tucson Metropolitan areas. AZTACS was also required to evaluate and identify methods to improve motorist compliance with existing and alternative emissions inspection programs.

The report submitted by the Eastern Research Group included several recommendations to improve emissions reductions, cost effectiveness, or public acceptance of the emissions control program in place in the Phoenix and Tucson Metropolitan areas. The report did not include specific cost estimates for implementing findings. Examples of recommendations are listed below, and are grouped according to their expected cost and benefit:

Strategies with high expected costs, with potentially large benefits

- High emitter identification using remote sensing devices

Strategies with uncertain costs and uncertain benefits

- Identifying heavy diesel trucks with high Nitrous Oxide (NO<sub>2</sub>) emissions

Low cost strategies with uncertain benefits

- Identifying smoking vehicles using roadside cameras
- Improving data repair collection
- Developing a repair quality index for repair stations

Strategies which are likely to be cost effective

- High emitter identification using emissions history and vehicle characteristics
- Exempting clean vehicles from emissions testing
- Adopting a scraping program for high emitting gasoline vehicles

Low cost, low benefit measures likely to be cost effective

- Increased inspection frequency for high mileage vehicles
- Development of web-based emissions test history report for used car buyers

Low cost, low benefit measures with uncertain cost effectiveness

- Development of a used car buyers guide based on generic make/model data

Chapter 404 also requires the director of the DEQ to review the contractor's report, and to submit a final report with recommendations to the Governor, President of the Senate, Speaker of the House, Joint Legislative Budget Committee, and the Vehicle Emissions Identification, Repair, and Testing Research and Oversight Committee by September 30, 2005, after providing for a 30-day review and comment period. The

30-day comment period for this study has closed, but the department has not submitted its recommendations as required by statute.

**Arizona Game and Fish Department and the Arizona Department of Transportation – Report on Transfer of Watercraft Registration to the Arizona Department of Transportation** – Pursuant to Laws 2005, Chapter 286, the Arizona Game and Fish Department (AGFD), in consultation with the Arizona Department of Transportation (ADOT), has submitted a report regarding the potential costs and benefits of transferring the Watercraft Licensing Division to ADOT. Chapter 286 specified that the report include an implementation plan with a proposed date of transfer, the overall impact to citizens, potential cost savings, and the number of Full-Time Equivalent (FTE) positions to be transferred from the AGFD to the ADOT.

The report outlined 3 proposals for transfer of watercraft registrations from the AGFD to ADOT. The first proposal would restrict service to 7 Motor Vehicle Division (MVD) offices located near the 7 AGFD offices. The second proposal was to offer water registration service at all MVD offices. The third proposal would be to make watercraft registration available at 10 MVD offices statewide. The report did not include any proposed transfer dates, nor did it include any information regarding the potential cost savings to the state. However, since ADOT already issues automobile licenses, transferring the watercraft function from AGFD to ADOT may result in some savings by reducing administrative costs.

The report listed the following potential impacts to citizens as a result of the proposed transfer:

- The possibility for additional locations to register watercraft (dependent upon the alternative chosen)
- The ability to perform vehicle, trailer, and watercraft registrations at the same facility
- Increased wait times at MVD offices
- Loss of the ability to obtain hunting or fishing licenses and watercraft registration licenses at the same location

The department currently uses 18 Customer Service Representatives and 2 Office Managers at 7 field offices for watercraft registrations. These employees also issue hunting and fishing licenses, and AGFD did not specify how many would need to be retained to perform license vending and how many would be transferred to ADOT for watercraft registration. However, ADOT estimates it will require 20 employees to perform watercraft services for the third proposal, which would provide watercraft registration at 10 MVD offices.

**Supreme Court – Report on Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund** – The Supreme Court is required to report on the Criminal Case Processing and Enforcement Improvement Fund and the State Aid to the Courts Fund annually by January 8<sup>th</sup>, pursuant to A.R.S. § 12-102.01 and 12-102.02. The report includes an evaluation of statewide court collection

efforts and the progress of criminal case processing projects in each Arizona county.

#### *Court Collections*

In FY 2005, statewide court revenue collections increased by \$32 million (or 12.6%) to \$284.2 million, while case filings decreased by (6.7)%.

#### *Case Processing*

In FY 2005, a total of 56,359 criminal cases were filed in Superior Courts throughout the state, which represents an increase of 0.5% over FY 2004. In addition, there were approximately 52,271 criminal case terminations in FY 2005, which increased by 6.1% over FY 2004. The report provides an overview of case processing performance in the 13 counties that receive monies from the State Aid to the Courts Fund. In the FY 2003 report, the Supreme Court established performance goals for criminal case dispositions of 90% of cases within 100 days and 99% within 180 days. In FY 2005, no county met either performance measure.

**Department of Revenue (DOR) – Report on Ladewig Expenditures** – DOR reports monthly on the status of the Ladewig litigation. DOR's monthly status report shows expenditures of \$37,300 for Ladewig administrative costs in December 2005. Expenditures and accounts forwarded to Unclaimed Property totaled \$56 million through December 2005, including \$47.5 million of expenditures and \$8.5 million of accounts forwarded to Unclaimed Property. *Table 6* summarizes these items.

DOR estimates that the FY 2005 refunds included overpayments of \$6.3 million to 3,200 of the 306,000 claimants due to clerical and computer matching errors. At a May 26, 2005 hearing, the court agreed to allow the state to hold off mailing FY 2006 refunds to the 3,200 overpaid claimants, until the overpayment issue was resolved. The Joint Legislative Budget Committee, at the June 28, 2005 meeting, asked that DOR report back to the Committee after the taxpayer refund overpayment issue had been resolved.

The report is to include DOR's updated estimate of the total cost of the Ladewig settlement.

On November 18, 2005, the court ruled that DOR cannot directly collect the first installment overpayments from overpaid taxpayers. However, DOR may offset the amount of the overpayment against any second and/or third installments. The court further ruled that the second installment is due to these taxpayers by March 1, 2006, and that the final installment remains July 21, 2006. DOR is required to notify the affected taxpayers. On January 9, 2006, DOR revised their cost estimate from \$99.2 million to \$92.6 million in FY 2007 for the third and final year of payments required by the court settlement. DOR expects to update their cost estimate again in February 2006.

**Department of Revenue – Report on Revenue Generating Program** – A footnote in the General Appropriation Act requires the Department of Revenue (DOR) to report quarterly to the Committee on the effectiveness of the revenue generating program and the department's overall enforcement and collections program, including a comparison of projected and actual revenue enforcement collections for FY 2006. The revenue generating program was expected to produce \$75.1 million of gross additional enforcement revenue, including a net increase of \$53.2 million to the State General Fund.

DOR has reported their General Fund enforcement revenue, which includes both their baseline and revenue generating program monies. They did not separate out the enforcement monies attributed to the revenue generating program. DOR had General Fund enforcement revenues of \$87.7 million in the first quarter of FY 2006, which was \$6.4 million above their goal of \$81.3 million. *Table 7* on the next page summarizes these results.

**Table 6**

#### **DOR's Ladewig Expenditures in FY 2006**

	<u>DOR's Estimate</u> <sup>1/</sup>	<u>Through December 2005</u>
DOR Administration	\$ 1,758,900 <sup>2/</sup>	\$ 368,600
Plaintiff Attorneys	4,900,000	4,853,300
Taxpayer Payments	51,600,000	42,343,400
Unclaimed Property Accounts <sup>3/</sup>	<u>0</u>	<u>8,478,300</u>
Total Expenditures	\$58,258,900 <sup>4/</sup>	\$56,043,600

<sup>1/</sup> Reported by DOR at the June 28, 2005 JLBC meeting.

<sup>2/</sup> JLBC favorably reviewed \$1,424,700 to fully fund DOR's estimated administrative costs in FY 2006 at the June 28, 2005 JLBC meeting. \$334,200 was unallocated in DOR's plan.

<sup>3/</sup> Taxpayer payment accounts forwarded to Unclaimed Property. Laws 2005, Chapter 333 requires that any unclaimed Ladewig taxpayer payments for FY 2006 be deposited in the General Fund.

<sup>4/</sup> Any unused amounts of the \$58,258,900 are set aside for future Ladewig payments.

**Table 7****DOR's General Fund Enforcement Revenue in FY 2006 (Net of Duplications)**

	FY 2006 Through 9/30/05		
	<u>Goal</u>	<u>Actual</u>	<u>Over/(Under)</u>
Corporate Tax Audit	\$13,368,600	\$ 8,393,800	\$ (4,974,800)
Individual Tax Audit	2,062,600	2,950,900	888,300
Transaction Privilege Tax Audit	3,945,200	4,265,400	320,200
License Compliance	3,025,100	4,893,100	1,868,000
Collections	47,894,900	55,978,100	8,083,200
Accounts Receivable <sup>1/</sup>	10,969,300	11,177,400	208,100
<b>Total</b>	<b>\$81,265,700</b>	<b>\$87,658,700</b>	<b>\$6,393,000</b>

<sup>1/</sup> Taxpayer accounts paid before they would have been moved to Collections, which allows collectors to work on other accounts.

**Department of Revenue – Report on Business Re-Engineering/Integrated Tax System (BRITS)** – BRITS is the new computer system being implemented by the Department of Revenue (DOR) to integrate their separate tax systems, improve enforcement, and increase revenues to the state. Given the importance of this issue, in April 2003 the Appropriations Chairmen asked DOR to provide quarterly reports on the additional revenue received from implementing BRITS. The implementation of BRITS began in FY 2003 with the awarding of the contract to Accenture, LLP on August 20, 2002. The original contract called for BRITS to be completed in FY 2007, for a total cost of \$133.7 million including an estimated \$11 million in interest (the average of DOR's \$9 million to \$13 million estimate). Accenture is financing the cost of BRITS, and is paid from the increased revenues generated by BRITS.

The Auditor General reported in October 2005, however, that on May 17, 2005 DOR sent a memo to the state's central procurement office, Enterprise Procurement Services, documenting contract changes that DOR had already made and requesting that the contract price be increased \$6.4 million to include the cost for Accenture to operate and maintain the BRITS data center for 4 years. This had been an additional cost option in the original contract, which DOR chose on its own to implement. The state procurement office has been working with Accenture and DOR to finalize the \$6.4 million contract extension, which would bring the new total cost of BRITS to \$140.1 million, assuming the same \$11 million in interest.

DOR had problems with the transaction privilege tax (TPT) conversion to BRITS in January 2004, which delayed other BRITS conversions as shown in the following table.

**Table 8****Projected Tax System Conversion Dates for BRITS**

<u>Tax System</u>	<u>Projected Date</u>	<u>Revised Date</u>
Corporate Income Tax	September 2004	July 2006
Individual Income Tax	September 2006	To Be Determined

Through November 2005, BRITS had not generated as much additional revenue as projected. BRITS revenue is now \$40

million ahead of schedule, due to collections accumulated but previously unallocated from May through September 2005. Accenture has been paid \$91 million through December 31, 2005 for increased collections, which is \$34 million ahead of schedule. The state/county/city have received \$16.1 million, which is \$6 million ahead of schedule. The following tables summarize BRITS costs and additional revenues through December 31, 2005.

**Table 9****Summary of BRITS Additional Revenues – Through 12/31/05**

	<u>Total</u>	<u>Projected Total</u>	<u>Over/(Under) Projection</u>
General Fund	\$13,842,100		
County/City	1,705,700		
Education	509,100		
<b>Subtotal</b>	<b>\$16,056,900</b>	<b>\$10,060,700</b>	<b>\$5,996,200</b>
Accenture	90,989,200	57,010,300	33,978,900
<b>Total</b>	<b>\$107,046,100</b>	<b>\$67,071,000</b>	<b>\$39,975,100</b>

**Table 10****Summary of BRITS Costs**

	<u>Through 12/31/05</u>	<u>Total Project</u>
Consulting Services	\$71,477,200	\$101,250,700
Hardware/Software	13,580,500	21,414,000
Interest	6,022,000	11,000,000 <sup>1/</sup>
<b>Subtotal</b>	<b>\$91,079,700</b>	<b>\$133,664,700</b>
Data Center <sup>2/</sup>	3,621,500	6,401,000
<b>Total</b>	<b>\$94,701,200</b>	<b>\$140,065,700</b>

<sup>1/</sup> DOR estimates interest will cost from \$9 million to \$13 million.

<sup>2/</sup> DOR's contract extension for Accenture to operate and maintain the BRITS data center for 4 years.

**Secretary of State – Report on Election Systems Improvement Fund Expenditures** – Pursuant to a footnote in the FY 2006 General Appropriation Act, the Secretary of State is reporting on actual expenditures from the Election Systems Improvement Fund in FY 2005 as well as estimated expenditures from the fund in FY 2006 and FY 2007.

Monies in the fund are to be used to implement the provisions of the Help America Vote Act (HAVA). HAVA is federal election reform legislation that imposes several requirements on the states with respect to the conduct of federal elections. Among the requirements are replacement of all punch card and lever voting systems, implementation of statewide voter registration and voter grievance systems, and implementation of voting systems that meet the standards outlined in the legislation. The new voting systems must allow the voter to verify the ballot before it is cast, provide the voter with the opportunity to change the ballot, and be accessible to individuals with disabilities.

In FY 2005 the Secretary of State's office spent a total of \$749,700 from the Election Systems Improvement Fund, including \$47,100 provided from federal funding and \$702,600 provided from the state General Fund. Expenditures were as follows:

- \$453,000 for consulting fees related to the development of the voter registration system
- \$147,500 for the development of a telephone voter grievance system
- \$47,100 to reimburse counties for making voting locations more accessible
- \$40,300 for a Business Analyst
- \$31,700 to verify registered voters' social security numbers with the Arizona Department of Transportation
- \$30,100 for miscellaneous expenditures

The Secretary of State's office currently estimates spending approximately \$20 million in FY 2006 and FY 2007. Approximately \$15 to \$18 million will be used to purchase accessible voting systems, most of which will be spent in FY 2006, with any remainder spent in FY 2007. Between \$3 and \$4 million in FY 2006 and \$12 million in FY 2007 will be spent on the acquisition, operation, maintenance and support of a statewide voter registration system. The remaining \$4 to \$10 million will be spent in FY 2006 and FY 2007 on voter education, making election sites more accessible, improvements to the telephonic grievance system, administration, consulting, poll worker and election official training, and telecommunications.

**Corporate Sales Factor – Conditional Enactment** – Pursuant to Laws 2005, Chapter 289, corporations may use an enhanced sales factor in calculating business income for corporate income tax purposes. Currently, corporate business income is apportioned based on a property factor, a payroll factor, and a sales factor. Chapter 289 provides for the sales factor to increase from the current 50% to 80% over 3 years, beginning in tax year 2007.

The legislation becomes effective only if 2 conditions are met:

1. One or more corporations must notify the Joint Legislative Budget Committee (JLBC) and the Governor's Office of Planning and Budgeting (OSPB) that one or more capital projects with cumulative capital

costs exceeding \$1 billion are planned. The notification is required to include the expected start and completion dates, description of the project, and expected construction employment information.

2. No later than December 15, 2007, corporations reporting under the previous conditional requirement notify JLBC and OSPB that the conditions have been met.

Chapter 289 further provides that on or before December 31, 2007, JLBC and OSPB shall jointly notify the Department of Revenue and the Legislative Council if the required conditions for enactment of Chapter 289 have been met.

The Intel Corporation submitted a letter to JLBC and OSPB on July 25, 2005 with notification of the intent to invest approximately \$3 billion in a new manufacturing facility in Chandler. The Intel letter included all of the information required in Condition 1 above. Intel submitted a second letter to JLBC and OSPB on September 30, 2005, with notification of the actual commencement of construction on the project. The second letter met the requirement in Condition 2.

Chapter 289 also requires corporations making qualifying investments to report annually by December 31 on the status of their projects. Intel submitted a letter to JLBC and OSPB on December 27, 2005, reporting that the Chandler project is on schedule to be completed in the second half of 2007 and that \$49.1 million was spent in 2005 for design, excavation and construction.

On January 18, 2006, JLBC and OSPB transmitted a letter to DOR and Legislative Council stating that conditions for enactment of Chapter 289 have been met.